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## Competitive Strategy and Performance in Mexico, Peru, and the United States

by

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### Abstract

This paper compares competitive strategy-performance relationships in Mexico, Peru, and the USA. 334 managers in the USA, 398 in Mexico, and 314 in Peru completed surveys. An innovative strategy orientation was positively associated with performance satisfaction in all three nations. The link between low cost strategy orientation and performance was negative in Mexico and positive in the USA. Mexican firms were the most innovative and Peruvian the most cost-oriented. Top managers in Mexico considered their firms' strategies less innovative and more cost-oriented than did middle and lower level managers. Top managers in Peru considered their firms' strategies more cost-oriented than did middle and lower level managers. The U.S. sample showed no significant strategy differences across management levels.

*Keywords:* business strategy, competitive strategy, Mexico, performance, Peru

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### Introduction

The competitive strategy-performance relationship has been a prevalent research topic over the past three decades. During this time, however, most published work considered firms and industries in the United States and other developed nations. In contrast, emerging economies have received considerably less attention, although current efforts have begun to address this problem. This paper adds to our knowledge of competitive strategies in emerging nations by comparing and contrasting the nature of the strategy-performance link in Mexico, Peru, and the United States. Specifically, this paper examines the extent to which differences in the strategy-performance relationship exist among the three nations, with additional consideration given to the influence of management level on strategy perceptions.

The remainder of the paper includes a brief historical depiction of the competitive strategy literature and an overview of general management practice in Mexico and Peru. Hypotheses are presented, followed by discussions of research methods and findings. Conclusions and implications for management practice and research are also suggested.

### Competitive Strategy and Performance

The nature of the competitive strategy-firm performance relationships can be traced to Bain (1956) and Mason's (1939) industrial organization framework of industry behavior, whereby firm profitability is viewed primarily as a function of industry structure. Characteristics of the industry—not the organization—are the key influences on organizational performance (Barney, 1986). Early strategy research-

ers challenged the I/O perspective, noting its inability to explain large performance variances within a single industry (Ghemawat, 2002). Initially, case studies highlighted firm-level behaviors associated with performance that were not readily explained by industry-level analyses.

The strategic group level of analysis was proposed as a compromise between I/O's deterministic, industry level of analysis and the organization level of analysis inherent to the strategic management discipline (Hergert, 1983; Porter, 1981). Strategic groups describe apparent clusters of businesses that appear to exhibit homogeneous behavior within a heterogeneous industry. Because strategic group assessments identified clusters of businesses employing largely similar strategies, researchers began to categorize likenesses within the strategic groups across studies. Business strategy typologies—also referred to as *gestalts*, frameworks, and archetypes—were proposed, each identifying several generic strategic approaches. In general, the literature supports the notion that various competitive strategies influence firm performance in different ways (Hashim, 2000; Porter, 1980; Slater & Narver, 1993).

The generic strategy typologies proposed in the late 1970s and 1980s became the theoretical basis for identifying strategic groups in industries. Porter's (1985) generic strategy typology is the most widely referenced. Following Porter, a business can maximize performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market.

Porter (1980) suggested that a business attempting to combine the two approaches invariably ends up stuck in the middle. He argued that the low cost and differentiation strategies are based on incompatible assumptions and thereby create trade-offs within the organization. This notion received considerable initial support (Dess & Davis, 1984; Hambrick, 1981; Hawes & Crittendon, 1984), but it was later challenged by a substantial body of research (Parnell, 1997; Parnell & Wright, 1993; Proff, 2000; White, 1986; Wright, 1987). Members of the "combination strategy school" have argued that businesses successfully combining low costs and differentiation may create synergies within the firm that overcome any trade-offs that may be associated with the combination.

A second typology, Miles and Snow's (1978) generic strategy approach, identified four competitive strategy alternatives: prospectors, analyzers, defenders, and reactors. The first three of these strategies can be associated with high performance if the organization's approach is aligned with the demands of its environment. A fourth strategy type—the reactor—does not represent a high-performing strategy, a conceptualization consistent with the notion of strategic simplicity (Lumpkin & Dess, 2006; Miller & Dess, 1993). Research has supported the validity of the Miles and Snow typology, although there have been some inconsistencies in findings (DeSarbo, DiBenedetto, Song, & Sinha, 2005; Hambrick, 1983; Parnell, 2000; Parnell & Wright, 1993; Segev, 1987; Zahra & Pearce, 1990).

Although these typologies emphasized the strategy similarities inherent in strategic group level research, Porter's combination strategy debate and Miles and Snow's notion of an analyzer—also viewed by some as a hybrid strategy—underscored the strategic differences across firms as well. If two generic strategies can be combined effectively, then various combinations become feasible. Following this logic, the low cost and differentiation generic strategies may be conceptualized as opposite ends of a continuum rather than as distinct, mutually exclusive strategic approaches. Hence, the strategic group level of analysis not only emphasized strategy commonalities within industries but inevitably exposed the shortcomings of strategic groups as well.

Discontent with the limited emphasis placed on organization-specific factors in strategic group analysis and strategy typologies may have been the primary impetus for a renewed interest in firm resources, not strategic group membership, as the foundation for firm strategy (Barney, 1986, 1991; Camerer & Vepsalainen, 1988). The resulting paradigm, resource-based theory, emphasizes unique firm capabilities, competencies, and resources in strategy formulation, implementation, and performance (Dutta, Narasimhan, & Rajiv, 2005; Kor & Mahoney, 2005). Indeed, the resource-based perspective is largely supported by a substantial body of empirical literature (Ray, Barney, & Muhanna, 2004). Resource-based scholars have studied such firm-level issues as transaction costs, economies of scope, and organizational culture (Barney, 1991; Camerer & Vepsalainen, 1988; Fiol, 1991). Prominent business-level issues include the analysis of competitive imitation (Rumelt, 1984), informational asymmetries (Barney, 1995), causal ambiguities (Reed & DeFillippi, 1990), and resource accumulation (Dierickx &

Cool, 1989). Sustained competitive advantage is a key focal point and exists when competitors are unable to duplicate the benefits of the strategy (Barney, 1991).

Recently, organizational economics—integrating perspectives such as agency theory, incentives, transaction cost theory, and property rights theory—has experienced a resurgence in the literature (Foss & Foss, 2005; Fulghieri & Hodrick, 2006; Gibbons, 2003; Whinston, 2003). In many respects, this perspective represents an extension of the resource-based perspective. Scholars in the organizational economics school integrate the tools and theories originally established for the industry level of analysis with new insights and approaches more appropriate for the firm level (Sheehan & Foss, 2007). The organizational economics perspective sheds new light on the issue by viewing top management as a key resource to be attracted, developed, and harvested. By incorporating transaction costs, agency theory, and other corporate governance concerns into the analysis, scholars are expanding the boundaries of the competitive strategy field (Boxall & Gilbert, 2007). Organizational economics therefore offers the potential for an integrative, comprehensive framework for understanding strategies in organizations (Kim & Mahoney, 2005).

Although the three major streams of competitive strategy-performance research—I/O economics, strategic groups, and resource-based theory—differ markedly in their assumptions concerning organizational performance, they see firm performance primarily as a function of firm behaviors, either individually or collectively. The increasing interest in firm resources, however, does not mean that testing strategy typologies is no longer useful, especially in emerging economies where such testing has been limited (Kim, Nam, & Stimpert, 2004; Kimura & Mourdoukoutas, 2000; Leiblein, 2003; Parnell, 2008; Pitelis & Pseiridis, 1999). In addition, the pace and intensity of change in the global business environment have become much more pronounced during the past two decades. As a result, speed has become more valuable as a competitive weapon, while the Internet has minimized the importance of physical boundaries and distance, and can enable firms to serve larger markets more efficiently (Kim et al., 2004).

### **Historical Context: Mexico and Peru**

The present study examines strategic behavior in two emerging Latin American nations, Mexico and Peru. The two countries are similar, yet culturally diverse. Mexico offers a blend of several cultures including the indigenous Amerindian peoples, the Spanish, and various other societal groups. The culture itself can be considered cohesive, and the family is very important in life and in making decisions. In addition, Mexican culture—and specifically Mexican business practice—has been influenced substantially by its neighbor to the north. American business investment in Mexico has soared over the past decade despite the 1994 Mexican financial crisis (Bieber & Mukhtyar, 1999). The prospects for continued growth of Mexican exports to the United States and Canada are strong (Ahmed, d'Astous, & Lemire, 1997; De La Garza, 2007; Hise, Solano-Mendez, & Gresham, 2003), political negotiations and confrontations notwithstanding (Dominguez-Villalobos & Brown-Grossman, 2007).

Unlike employees in the United States, Mexican employees value status differentials between individuals and expect their observance when appropriate (Stinson, 1995). Class distinction is widely accepted, as is the great difference in the distribution of wealth and power within organizations. Influence from the United States notwithstanding, there is evidence that Mexican managers employ substantially different reasoning processes from their American counterparts (Husted, Dozier, McMahon, & Kattan, 1996; Lowe, Morris & Wilkinson, 2000). Overall, the Mexican culture is cohesive, one that emphasizes the role of the family. Decision-making authority tends to be centralized in Mexico, with little delegation (Morris & Pavett, 1992; Schniederjans & Zuckweiler, 2004). Although the business work system has tended to be patriarchal, Mexican workers tend to be very loyal to their organizations. However, a shift toward a free flow of information, employee participation, and decentralization can also be seen in Mexican organizations (Morales, 1997). Even the notion of self-managed work teams has gained attention among Mexican organizations (DeWitt, 1995; Schniederjans & Zuckweiler, 2004; Stephens & Greer, 1995).

Like Mexico, Peru has deep linkages to its history and indigenous culture. Although the Spanish and Amerindian influences are predominant, many Peruvians trace their ancestry to Japan and other parts of Asia. Peru is South America's third largest country and has an economy composed of modern and subsistence sectors, with the former most prominent in its predominant urban center, Lima (Economist Intelligence Unit, 2003). The proportion of women in the urban workforce grew from about one third in 1970 to about one half by 2000 (Sully De Luque & Arbazia, 2005).

Peruvian managers tend to possess a greater tolerance for role ambiguity and preference for a lower power distance between superiors and subordinates than their counterparts in the United States (Sully De Luque, 2000). Hence, there appears to be a trend in favor of greater management interaction, greater decentralization of decision making, and more participative leadership styles (Buchenrieder & Heuft, 2003). Peruvian management practice is difficult to encapsulate, however, because of substantial differences across firms and industries. Indeed, formal human resource practices only became apparent in the early 2000s (Sully De Luque & Arbazia, 2005).

Mexico and Peru are often referenced as part of a larger emerging Latin American cluster of nations. Substantial cultural, structural, and economic differences exist among these nations, (Husted & Allen, 2006; Kumar & Chase, 2006). Further, some of the differences between the two nations are difficult to assess because of considerable differences within each of them. Such differences exist throughout Mexico, particularly when one compares the developing industrial cities along the U.S. border and the nation's capital with smaller, more isolated cities and small communities in outlying regions. This problem is particularly pervasive in Peru, however, where management practice is difficult to encapsulate because of substantial differences across geographical regions, firms, and industries (Jackle & Li, 2006). Indeed, formal human resource practices only became apparent last decade, and are most visible in large firms in Lima (Sully de Luque & Arbazia, 2005). While management practice at large Peruvian firms is more likely to reflect current thinking, Peru has an unusually high percentage of small- and medium-sized enterprises (SMEs). In 2002, only 13% of organizations in metro-Lima employed 50 or more workers (Ministerio de Trabajo y Promocion del Empleo, 2003). Activity in the informal economy is substantial, however, especially outside of Lima. Such workers may run factories in their homes, operate a small shop, or function as street vendors.

Historically, working conditions in Peru have been challenging. Legislation in the 1970s addressed these concerns, opening the door to collective bargaining practices designed to protect basic worker rights. Since that time, labor union movements in Peru have been common, frequently accompanied by tense management-labor relations (Collier & Collier, 1991; Graham, 2001; Haworth, 1989). Strikes were common in the late 1980s, a factor many believe contributed to a severe economic downturn in the 1990s. As a result, an economic restructuring plan that included market-oriented reforms, a stronger central government, and weaker unions was instituted (Cameron & Mauceri, 1997; Parodi, 2000). The shift away from protectionism and high tariffs—as well as the elimination of two powerful guerilla organizations—resulted in substantial economic gains (EIU, 2003; Kay, 1997; Palmer, 1992). Hence, workforce cohesion—not strategic management—was an overriding concern of many top managers in Peru until the first decade of the 21st century.

## Hypotheses

Four hypotheses are proposed in this present study. Justification for each hypothesis is elaborated herein.

A large volume of extant research assesses the link between competitive strategy and performance. Specifically, the literature is replete with strategic group assessments associating innovation- and/or cost-oriented strategies with performance (Nicholson, Rees, & Brooks-Rooney, 1990). Many of these studies have been conducted within the context of generic strategy typologies developed by Porter (1980, 1985) and Miles and Snow (1978).

Porter's (1980, 1985) framework suggests that a business can maximize performance by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of its rivals. Miles and Snow's (1978) framework identified four strategic types: prospectors, defenders, analyzers, and reactors. Prospectors represent innovative businesses and perceive the environment as dynamic and uncertain, maintaining flexibility and employing innovation to combat environmental change and often becoming the industry designers (Miles & Snow, 1986). Defenders perceive the environment to be stable and certain, and they seek stability and control in their operations to achieve maximum efficiency (Brunk, 2003). Hence, both typologies present innovative and low cost strategic alternatives. Empirical work testing both typologies has largely supported positive links between both approaches and performance (Allen & Helms, 2006; Moore, 2005; Morgan & Berthon, 2008; O'Regan & Ghobadian, 2006). Although such tests in developing nations are not as plentiful, similar links would be expected in the United States, as well as in Mexico and Peru.



*H1a: An innovative strategy orientation is positively associated with performance satisfaction.*

*H1b: A low cost strategy orientation is positively associated with performance satisfaction.*

Hofstede's (1980, 1993, 2003, 2004) cultural dimensions can be utilized as part of the theoretical foundation for comparing and contrasting the United States, Mexico, and Peru. His individualism (IDV) index represents the extent to which a society's members tend to function as individuals rather than members of groups. Collectivism—not necessarily in the political context—is the opposite of Hofstede's conceptualization of individualism. Both Mexico and Peru produced low scores on the IDV, 30 and 16 respectively, whereas the USA produced a score of 91. From a management perspective, a low IDV can have both positive and negative influences on productivity. Low individualism means less individual initiative and even groupthink, however, as individuals are hesitant to express unpopular opinions. Individualism has been linked to innovation and strategic decision making (Duimering & Robinson, 2009; Martin-Alcazar, Romero-Fernandez, Sancez-Gardey, & Sanchez-Perez, 2009).

*H2a: U.S. firms emphasize innovation more than do Mexican firms.*

*H2b: Mexican firms emphasize innovation more than do Peruvian firms.*

A large body of extant strategy-performance literature is based on the notion that a strategy tailored to a firm's internal and external environment is more likely to result in superior performance (Brouthers & Arens, 1999; Hamilton & Shergill, 1992; Zajac, Kraatz, & Bresser, 2000). Within this context, strategic management helps organizations cope with uncertainty by helping shape the competitive environment (Das, Handfield, Calantone, & Ghosh, 2000). The strategy selected by each organization determines the means by which it intends to successfully meet competitive challenges (Porter, 1980). Better information and certainty about the environment tend to improve performance (Katz, Zarkeski, & Hall, 2000; Thompson, 1967).

Hofstede's uncertainty avoidance index (UAI) reflects the extent to which members of a particular society tolerate uncertainty and ambiguity. More specifically, it suggests the degree of comfort one is likely to have when operating in unstructured situations. Whereas the United States scores relatively low on the UAI—46—Mexico and Peru score much higher, with scores of 81 and 87 respectively. In both nations, high uncertainty avoidance is pervasive, both throughout society and in organizations. Decision making tends to be centralized in these Latin American nations, with little delegation of authority (Morris & Pavett, 1992).

Because of differences in human, environmental, and technological resources, Latin American firms often face different strategic challenges when compared to their American and European counterparts (Correa, 2007; Ickis, 2000). Innovation represents a key link between uncertainty and strategy. The innovative process assumes the existence of uncertainty and seeks to leverage it through productive change. Given the Mexican and Peruvian tendency to avoid uncertainty, Mexican and Peruvian firms will reflect a greater emphasis on low costs than those in the United States.

*H3a: Peruvian firms emphasize a low cost orientation more than do Mexican firms.*

*H3b: Mexican firms emphasize a low cost orientation more than do U.S. firms.*

Strategy is both an actualized and a perceived phenomenon, and manager perceptions can depend on individual responsibilities. Top managers, for example, are more conceptually oriented and are more likely to appreciate the innovative nature of strategy. Strategy is a human issue, however, particularly when execution is involved (Goldman, 2003; Ostroff & Atwater, 2003). Middle-level managers play a significant role in this process, both with their contribution to strategy content and their sensemaking and dissemination of the strategy throughout the organization (Bonn, 2005; Floyd & Wooldridge, 2000; Gioia & Chittipeddi, 1991). Middle managers often report dissatisfaction with the amount of top management support for their strategy execution efforts (Qi, 2005). Indeed, it is difficult to overstate their role in successful implementation (Balogun & Johnson, 2005; Emberton, 2006).

Research supports the notion that effective strategy formulation and execution often reflect a diverse array of top and middle management inputs (Antonioni, 1999; Currie, 1999; Davis, 2001; Thakur, 1998; Yoo, Reed, Shin, & Lemak, 2009). Mintzberg and Waters' (1985) conceptualization of deliberate and emergent strategies acknowledges the prominent role top and middle managers play in the strategic management process. Following the work of Burgelman (1983) and Hiam (1993), Nichol (1992) observed that top management simply cannot effectively develop a strategy and plan for its imple-

mentation without assistance from middle managers. Hence, middle managers—more concerned with execution—tend to emphasize and balance top management's concern for conceptual issues with a more practical concern for control. This distinction becomes even more apparent when lower level managers are considered.

*H4a: Top managers perceive their firms' strategies as more innovative than do middle and lower level managers.*

*H4b: Lower level managers perceive their firms' strategies as more cost-focused than do middle and upper level managers.*

## Methods

To test the hypotheses, it was necessary to measure strategic orientation along the lines of innovation and cost leadership. Measuring organizational performance was also necessary, and doing so always represents a challenge in strategy-performance studies, as measurement choices can influence findings (Cavalieri, Gaiardelli, & Ierace, 2007; Jusoh & Parnell, 2008; Pongatichat & Johnston, 2008). Performance is an elusive construct and can be evaluated from a narrow, profit-oriented viewpoint or from a broader perspective that also includes considerations such as market share, firm growth, and the attainment of organizational objectives. A broad conceptualization of performance is utilized in the present study.

Quantitative measures of organizational performance can be employed, but a qualitative approach can assess subjective areas of performance such as the satisfaction of managers, customers, and other stakeholders and ethical behavior. Moreover, utilizing a qualitative approach provides insight into organizational processes and outcomes that may not be readily apparent when financial measures are evaluated (Ayadi, Dufrene, & Obi, 1996; Parnell, O'Regan, & Ghobadian, 2006). A qualitative assessment was utilized in the present study, adopting a self-typing scale to assess relative competitive and objective performance from Parnell, Lester, and Menefee (2000).

The instrument utilized in this study contained Pelham and Wilson's (1996) five-item innovation strategy and three-item low cost strategy scales and Parnell, Lester, and Menefee's (2000) five-item performance satisfaction scale (see also Parnell, 2004; Parnell, O'Regan, & Ghobadian, 2006). Demographic and personal items were also added, including age, gender, management experience, organizational experience, and position (i.e., management level) in the firm. Survey details are provided in Table 1.

*Table 1*  
Explanation of Survey Items

Item	Concern
STRATINN1	New product development
STRATINN2	Strict product quality control procedures
STRATINN3	Developing new products and refining existing ones
STRATINN4	Innovation in the manufacturing process
STRATINN5	Developing products for higher priced markets
STRATCOST1	Pricing below competitors
STRATCOST2	Continuous, overriding concern for lowest cost per unit of production
STRATCOST3	Production for lower priced market segments
PERSAT1	Satisfaction with operating profits
PERSAT2	Satisfaction with profit to sales ratio
PERSAT3	Satisfaction with cash flows from operations
PERSAT4	Satisfaction with return on investment
PERSAT5	Satisfaction with return on assets

Surveys were completed by 334 managers in post-graduate training programs in the United States. The survey was also translated into Spanish and completed by 398 Mexican and 314 Peruvian managers in post-graduate programs in their respective countries. All surveys were administered by the author of the study. The sample included a variety of industrial classification and orientations in all three nations. All three management levels were represented in each sample, although the U.S. sample contained a relatively higher percentage of top managers. The average age of respondents ranged from 31.3 years in Peru to 36.5 years in the United States. Likewise, respondents in Mexico and the United States tended to have more management and organizational experience than did their Peruvian counterparts. A summary of key sample data is presented in Table 2.

Table 2  
*The Sample*

Frequencies	Mexico (n=292)	Peru (n=314)	United States (n=334)
<i>Gender*</i>			
Men	192 (65.8%)	151 (48.1%)	152 (42.6%)
Women	100 (34.2%)	163 (51.9%)	191 (57.4%)
<i>Management level</i>			
Lower managers	100 (34.2%)	136 (43.3%)	120 (35.9%)
Middle managers	144 (49.3%)	144 (45.9%)	114 (34.1%)
Top managers	48 (16.4%)	34 (10.8%)	100 (29.9%)
<i>Descriptive data (mean &amp; standard deviation)</i>			
Age	33.26 (SD=5.68)	31.27 (SD=5.83)	36.47 (SD=10.67)
Management experience	6.82 (SD=4.82)	3.63 (SD=2.87)	7.02 (SD=7.96)
Experience with organization	7.01 (SD=4.02)	4.08 (SD=2.80)	6.89 (SD=7.40)

\*One U.S. respondent did not select a gender.

## Results

Scale validation was necessary prior to testing the hypotheses. One-factor solutions for the innovation, cost, and performance satisfaction scales are presented in Table 3. The innovation and cost items were factor-analyzed as a group to confirm the existence of two strategic orientations. Innovation and cost items were expected to coalesce into two relatively distinctive factors in each national sample. If this did not happen, questions of discriminant validity could be raised.

Two-factor, Varimax-rotated solutions for innovation and cost items for Mexico, Peru, and the United States are presented in Tables 4-6 respectively. Factor loadings are strong in most instances with two exceptions. The third cost item—production for *lower* priced market segments—did not load well in either the Mexican or Peruvian samples (see Table 3). Likewise, the fifth innovation item—production for *higher* priced market segments—was viewed more as anti-cost than pro-innovation in the Mexican sample (see Table 4). Collectively, these anomalies suggest that the presumed link between low (production) costs and low (market) price remains strong in the United States, but this phenomenon is not necessarily shared in Mexico and Peru.

Table 3  
Factor Analysis of the Strategy Innovation, Cost Leadership, and Performance Satisfaction Scales

	Mexico (n=292)	Peru (n=314)	United States (n=334)
<i>Strategy innovation</i>			
STRATINN1	.782	.741	.824
STRATINN2	.649	.809	.824
STRATINN3	.738	.823	.835
STRATINN4	.659	.717	.772
STRATINN5	.526	.737	.709
Alpha	.699	.822	.852
Variance explained	45.76%	58.72%	63.09%
<i>Strategy cost leadership</i>			
STRATCOST1	.854	.808	.814
STRATCOST2	.828	.857	.867
STRATCOST3	.483	.310	.861
Alpha	.557	.463	.803
Variance explained	54.95%	49.46%	71.82%
<i>Performance satisfaction</i>			
PERSAT1	.741	.638	.838
PERSAT2	.709	.953	.843
PERSAT3	.808	.839	.834
PERSAT4	.737	.917	.894
PERSAT5	.657	.872	.870
Alpha	.772	.897	.909
Variance explained	53.59%	72.43%	73.48%

Table 4  
Mexico: Two-Factor Solution for Innovation and Cost Items

	Strategy emphasis innovation	Strategy emphasis cost
STRATINN1	.495	-.595
STRATINN2	.748	-.081
STRATINN3	.582	-.461
STRATINN4	.769	-.043
STRATINN5	.079	-.732
STRATCOST1	-.070	.868
STRATCOST2	-.247	.715
STRATCOST3	.344	.430

Table 5  
Peru: Two-Factor Solution for Innovation and Cost Items

	Strategy emphasis innovation	Strategy emphasis cost
STRATINN1	.748	-.208
STRATINN2	.807	.153
STRATINN3	.783	.320
STRATINN4	.713	.043
STRATINN5	.747	-.035
STRATCOST1	.092	.779
STRATCOST2	-.345	.827
STRATCOST3	.226	.370



Table 6  
United States: Two-Factor Solution for Innovation and Cost Items

	Strategy emphasis innovation	Strategy emphasis cost
STRATINN1	.796	.212
STRATINN2	.853	.026
STRATINN3	.853	.059
STRATINN4	.690	.360
STRATINN5	.653	.252
STRATCOST1	.156	.782
STRATCOST2	.198	.836
STRATCOST3	.121	.853

Given the general support of the innovation, cost, and performance satisfaction scales, composite single-factor solutions were generated for the innovation, cost, and performance satisfaction scales. Factor scores via the regression method were computed to serve as surrogates for each for hypothesis testing.

*The first hypothesis was partially supported.* A positive correlation between an innovative strategy orientation and performance satisfaction was found in all three nations. A positive link between a low cost strategy orientation and performance satisfaction was found only in the United States. This link was not significant in Peru and was *negative* in Mexico (see Table 7).

Table 7  
Strategy Associations with Performance Satisfaction

Variable	Factor scores		
	Mexico	Peru	United States
Strategy innovation	.469*	.713*	.260*
Strategy cost	-.447*	.072	.254*

\* significant at .05 level

*Hypothesis 2a was not supported, but hypothesis 2b was supported.* Mexican firms were viewed as the most innovative of the three groups. Firms in the United States were viewed as the least innovative. Results from an analysis of variance (ANOVA) of strategy comparisons across nations appear in Table 8.

Table 8  
Nation Comparisons

Variable	Factor scores			F-value	Significance
	Mexico	Peru	United States		
Strategy innovation	.499	-.143	-.308	62.406	.000
Strategy cost	-.471	.363	.077	60.964	.000
Performance satisfaction	.407	-.039	-.327	46.064	.000

*Hypothesis 3a was supported, but hypothesis 3b was not supported.* Peruvian firms were seen as the most cost-oriented of the three groups. Mexican firms were viewed as the least cost-oriented, however, with U.S. firms scoring in the middle.

*Hypothesis 4a was supported in Peru only, whereas hypothesis 4b was not supported.* In Mexico, lower level managers viewed their strategies as most innovative, whereas top managers viewed them as most cost-focused. Peruvian top managers also emphasized cost-oriented strategies more than managers at other levels. No significant difference was found among Peruvian managers with respect to innovative strategies. Interestingly, no significant differences were found across managers in the United States,

either in terms of innovation or cost. ANOVA results are presented in Table 9.

Table 9  
*Strategic Emphasis Comparisons by Management Level*

	Mexico (n=392)	Peru (n=314)	United States (n=334)
Strategy innovation			
Lower management	.784	-.137	-.276
Middle management	.545	-.227	-.306
Upper management	.230	.187	-.346
Total	.499	-.143	-.307
F-statistic	37.783	2.206	0.132
Significance	.001	.112	.876
Strategy cost			
Lower management	-.650	-.061	.048
Middle management	-.512	.516	.110
Upper management	.043	1.416	.057
Total	-.471	.363	.072
F-statistic	12.218	49.767	0.118
Significance	.000	.000	.888

## Discussion

Results of the hypothesis testing were mixed. Before possible explanations can be proposed, it is important to acknowledge two limitations associated with the research design. First, all three samples included managers from a variety of industries. Hence, the influence of industry membership—if any—cannot be detected in the present study.

Second, although sound research encourages one to maintain methodological consistency, problems invariably exist when constructs and surveys are modified or translated to suit samples in other cultures. Such changes invariably present judgmental decisions that must be made by the researcher. Punnett and Shenkar (1994) warned against interviews, experiments, and observational approaches where great religious and other cultural differences exist between the researcher's home culture and that being studied. In addition, survey research is feasible when any language barriers are overcome, but less reliable when educational differences are also highly pronounced. Further, one's values can influence item interpretation and create response bias.

This limitation may be discounted to some extent, however, because the U.S. sample scored between the Mexican and Peruvian samples along both low cost and innovation orientations. Language and cultural similarities between Mexico and Peru suggest that any such influence on results would likely have been shared by both nations. This lack of convergence between the Mexican and Peruvian samples notwithstanding, the influence of cultural and language bias remains a possibility.

Several explanations for the partial support for the hypotheses can be proffered. First, the perceptual nature of the research design is worth noting. For example, Mexican respondents were the most satisfied with the performance of their firms, followed by Peruvian and U.S. managers. This does not necessarily mean that *actual* performance was highest in the Mexican group. Rather, the relatively high performance satisfaction among Mexican respondents may be more closely associated with how actual performance compared to expected or past performance. It serves as a useful measure to assess the appropriateness of various strategy orientations within nations but has limited utility in terms of comparisons across borders.

Perceptions concerning strategies are more useful representations, especially when they are analyzed in concert. For example, one could question whether Mexico's high score along the innovation dimension might be associated with a proclivity among Mexican respondents to express a stronger

agreement with strategy items than would their counterparts in other nations. In the instances of Mexico and Peru, however, this argument has little credence, as the same group of Mexican respondents that produced the highest innovation scores among the three groups also produced the lowest cost scores. Likewise, the Peruvian respondents produced the highest cost scores, but also generated scores below the mean in terms of innovation. Therefore, the existence of a general high or low score bias within the Mexican and Peruvian samples is unlikely.

These considerations notwithstanding, the present study challenges the traditional view that firms in developed nations—particularly the United States—tend to be the most innovative. Likewise, the notion that successful firms in emerging nations employ low cost strategies to facilitate the lowest possible prices is drawn into question as well.

It is also interesting to note the correlations among the factor score measures for innovation orientation, cost orientation, and performance satisfaction. Scores for the two strategy orientations were not significantly associated. The correlation between innovation and performance satisfaction was positive and strong (.556) and significant at the .000 level. The correlation between cost and performance satisfaction was negative but modest (-.065), significant at the .050 level. In other words, respondents who perceived their firms' strategies as more innovative were also likely to be satisfied with their firms' performance.

Although one might suggest a causal link between innovation and performance, such an inference might be premature. The notion that more innovative firms outperform less innovative ones is well documented in the literature (Dutta et al., 2005; Kor & Mahoney, 2005). Nonetheless, strong performance can also create opportunities for innovation through increased market share and more slack resources (Cheng & Kesner, 1997; Daniel, Lohrke, Fornaciari & Turner, 2004). Hence, there is theoretical support for a reciprocal relationship between innovation and performance.

## **Conclusions and Future Research**

The hypotheses tested in the present study received partial support. An innovative strategy orientation was positively associated with performance satisfaction in all three nations. A low cost orientation was positively associated with performance satisfaction in the United States, however, and the association was negative in Mexico and not significant in Peru. Mexican firms were found to be the most innovative, followed by Peruvian and U.S. firms. Peruvian firms were found to be the most cost-oriented, followed by U.S. and Mexican firms. Top managers in Mexico viewed their firms' strategies as less innovative and more cost-oriented than did middle and lower level managers. Top managers in Peru considered their firms' strategies to be more cost-oriented than did middle and lower level managers, with no differences found in terms of an innovation orientation. No significant strategy differences across management levels were found in the U.S. sample.

These findings raise questions about a widely accepted assumption about firms in emerging nations, specifically those in Latin America. Conventional wisdom suggests that successful firms in developed nations are more likely to pursue strategies anchored in innovation while those in emerging economies are more likely to emphasize cost containment (Parnell, 2004). This assumption was not supported in the present study.

Several opportunities for future research can be drawn from this study. First, increased investment in central and South American countries by United States' firms along with increased trade among businesses between these countries will broaden the impact of crises that occur. Stakeholders impacted by crises in all countries will find the world getting smaller. Understanding cultural differences and views can help managers manage the crisis events better.

Second, because many management constructs developed in advanced Western nations may be inappropriate in emerging economies, new constructs may more accurately explain management behavior (Punnett & Shenkar, 1994). There is also a need for modified research approaches to compare and contrast practices among widely divergent cultures without forcing one culture into a construct definition appropriate in another. Researchers must seek applications of management concepts so that existing theory can be applied to developing countries while at the same time allowing for substantial theoretical

modifications when findings cannot be readily explained by prevailing models (Brouthers, O'Donnell & Hadjimarcou, 2005; Parnell & Hatem, 1999).

Third, additional research on perceptual differences of strategy across management levels is needed. Wooldridge and Floyd's (1990) extensive empirical analysis of middle management strategic involvement found that middle management involvement in strategy formulation improved performance. Interestingly, most organizations represented in their sample deliberately involved middle managers in the process. Although their study reflects a culmination of thought acknowledging involvement beyond the top manager and even the top management team (Barker & Patterson, 1996; Schilit, 1987), most published studies utilizing perceptual data continued to rely solely on the perceptions of the top manager (Goll & Johnson, 1996).

Fourth, the present study did not evaluate differences with regard to firm size or industry. Indeed, small and large firms, as well as those in different industries, plan and execute strategies differently (Verreynne, 2006). This is a particular concern in Latin America where substantial qualitative differences exist between large global firms and small domestic ones (Jackle & Li, 2006). For example, it is possible that for domestic firms in stable industries, low cost strategies may yield the highest performance levels. However, in dynamic, volatile industries common to Mexico and Peru, innovation-oriented strategies may serve as a more effective means of adapting to unpredictable environmental changes. Additional work that examines the strategy-performance link in homogeneous groups based on size, scope, and structure is necessary. Without such research, generalizability across studies is tenuous (Morris & Pavett, 1992; Sully De Luque & Arbazia, 2005). This is a greater concern when considering non-Latin developing nations such as the Middle East or parts of Asia, but it is also relevant when addressing Latin America as a whole.

Finally—and broadly speaking—additional research in emerging nations is needed (Parnell & Hatem, 1999). The lack of support for hypotheses proposed in this study underscores the fact that some widely held views concerning management in emerging economies may not hold up under empirical testing. Although scholars have begun to fill this void in recent years, a considerable amount of additional work is required.

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